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## **The ECJ rules on standard-essential patents: thoughts and issues post-Huawei**

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**Abstract:** The beneficial effects of standardization can be jeopardized by unwanted conduct of its participants, for instance where a SEP holder engages in hold-up or a standard implementer in hold-out. In its Huawei decision the ECJ attempts to resolve such situations by defining rules of conduct for FRAND disputes. Although promising, the decision evokes new questions and has left many issues unsolved. Among those highlighted in the article are the roles of contract and competition law in relation to the concepts of “good faith and recognized commercial practice”, the ECJ’s excessive reliance on FRAND commitments, the procedural and substantive aspects of FRAND determination and FRAND-compliant conduct, the exact consequences of FRAND violations, and the potential future role of SSOs.

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The ECJ rules on standard-essential patents: thoughts and issues post-Huawei

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Treaty on the Functioning of the European Union art.102

Charter of Fundamental Rights of the European Union art.17, art.47

**Cases:**

Huawei Technologies Co Ltd v ZTE Corp (C-170/13) EU:C:2015:477; [2015] Bus. L.R. 1261 (ECJ (5th Chamber))

Bundesgerichtshof (Orange Book Standard) (KZR 39/06) unreported 6 May 2009 (Germany)

**\*365 I. Introduction: Hold-up, hold-out and FRAND disputes**

Technical standardisation is an omnipresent part of modern life, as experienced by anyone who uses a smartphone. To a certain extent, this success comes as a surprise—does not standardisation imply competitors sharing, in a standard-setting organisation (SSO), precious know-how and business secrets? And do not these competitors constitute, in doing so, some form of cartel, requiring the attention of competition watchdogs? True, but market participants and competition authorities have accepted, even fostered, standard-setting nonetheless because of its beneficial effects <sup>1</sup>: inter alia, standardisation ensures interoperability of standard-based products, it renders these products more comparable for consumers and it can help to select the "best" available technical solution for a given task.

However, these benefits come at the price of considerable risks. Among them are harmful interactions between standards and intellectual property rights, such as "hold-up" and "hold-out" situations. In a prototypical hold-up situation, the owner of a patent on part of a standard (standard-essential patent — SEP) imposes excessive, non-FRAND <sup>2</sup> licensing conditions <sup>3</sup> on standard users. The mechanism that enables him to do so is the "lock-in" that often occurs once the standard is implemented: market participants have invested in adapting their production or other business activities to the standard and these investments would be lost as sunk costs if the standard-based activity were given up. <sup>4</sup> Even worse, such renegade players might be forced to leave the respective market as and if consumers prefer standard-compliant products. This can, in particular, occur where strong "network effects" are present, i.e. where the value of the respective product or technology increases with the number of other persons using it. <sup>5</sup> Telecommunication standards are a very

good example for such effects: they allow handhelds to interact, become ever more valuable with the increasing number of people interconnected by way of this shared technological basis and, hence, tend to decrease the attractiveness of non-standard-compliant devices. Of course, IP-encumbered standards could theoretically be replaced by other, non-encumbered ones. Alternative standard-setting can be an effortful exercise, though. Entire markets may be slow to move from one standard to another and relevant alternative technology that is not in its turn subject to intellectual property rights may be hard to identify. All in all, lock-in can yield a powerful position to the SEP owner. It can allow him to "hold hostage" standard users, threatening to prohibit their use of his protected technology and even to force their market exit if they do not comply with the licensing conditions he defines. The intuitive concerns evoked by this scenario are justified in principle. With his excessive royalty demands an IP owner engaged in hold-up appropriates (part of) the value of the standard while the rationale of IP protection seems to entitle him only to the economic value of his protected invention.<sup>6</sup> By setting his licensing requirements selectively he may inflict particular harm on some standard users, for instance because they are his competitors in the market for standard-based devices. Ultimately, the risk of such conduct may deter market participants from implementing standards and tapping their beneficial potential in the future. Standard-setting organisations can—and do—try to prevent hold-up, for instance by requiring SEP owners to commit to licensing their IP on FRAND conditions.<sup>7</sup> Past cases have shown, however, that such precautions may be circumvented where, for example, the IP owner stays away from the SSO in the first place<sup>8</sup> or transfers his SEPs to an entity that has, itself, never made a FRAND commitment. \*366<sup>9</sup>

Considering all this, hold-up jeopardises the beneficial effects of standardisation. This is not to mean, however, that the "bad guys" are always the IP owners. In a so-called "hold-out" a market participant uses the standard, and hence the standard-essential patent, without taking a licence at all or without honouring FRAND-conditions. In intellectual property law theory the SEP owner can, of course, halt such conduct by way of an injunction and remedy its effects by claiming damages.<sup>10</sup> In practice, though, reluctance of courts to grant injunctions based on SEPs or the sheer amount of resources required to enforce them across the board may shield the non-compliant standard user. As a result, the standard user free-rides on the innovative effort made by the SEP owner, frustrates the incentivising rationale of IP protection and, ultimately, deters IP owners from making their technologies available for future standardisation.

Statistical data indicate that risks such as hold-up and hold-out are not merely theoretical but result in profuse litigation activity regarding SEPs.<sup>11</sup> The "smartphone wars" have made this evident to a broader public. As a rough—and non-exhaustive<sup>12</sup>—classification one may distinguish three main types of cases: In the "ambush cases" like *Rambus* the owner does not declare his patent, avoids making a FRAND commitment, waits until the standard is implemented and then attempts to exploit hold-up by demanding non-FRAND licensing conditions.<sup>13</sup> In the typical "portfolio transfer cases" like *IPCom*,<sup>14</sup> the initial SEP owner made a FRAND commitment. Thereafter, though, he transfers his SEP portfolio to an acquirer that does not honour this commitment but tries to hold-up standard implementers.<sup>15</sup> In the "FRAND dispute" cases the SEP owner has declared the patent, made a FRAND commitment and no "suspicious" conduct (ambush, portfolio transfer, etc.) is present. However, SEP owner and standard implementer(s) end up quarrelling over what "FRAND" conditions are in the particular case.<sup>16</sup> Here, the hold-up/hold-out antonymy is typically at full blossom as the standard implementer denounces the patent holder's licensing proposal to be non-FRAND while the latter blames the standard implementer for engaging in delaying tactics.

At present, FRAND disputes are the most prominent subset of cases and, arguably, the decision which the European Court of Justice (ECJ) handed down in *Huawei* is so far the most important one on the matter in Europe. Far from answering all relevant questions, however, the ruling did in fact provoke some new ones. After analysing the background and core statements of *Huawei* (below, II.) this contribution aims at sketching (below, III.) some of the most important issues which are now to be discussed and resolved.

## II. The Huawei case

### 1. Facts of the case

The companies Huawei and ZTE, both of them Chinese, are powerful players in the telecommunications sector and rivals on the Chinese as well as on the European markets.<sup>17</sup> Huawei declared a number of its patents to be essential to ETSI's 4G/LTE standard and made a commitment to license them on FRAND terms. As ZTE markets products based on the 4G/LTE standard the parties engaged in licensing negotiations but could not reach an agreement. In particular, ZTE proposed a cross-licensing arrangement instead of royalty payments but Huawei turned this down—some say because it considered as quite weak the SEP portfolio that ZTE would have contributed to the cross-licensing. Since negotiations had failed and ZTE continued to—allegedly—use Huawei's SEPs without paying royalties, Huawei brought an action for infringement against ZTE before the Düsseldorf Regional Court (*Landgericht Düsseldorf*), seeking an injunction prohibiting the infringement, the rendering of accounts, the recall of products and an award of damages. The court, however, perceiving a potential contradiction between the positions of the German Federal Court of Justice (*Bundesgerichtshof*) and the European Commission, stayed the proceedings and referred a number of questions to the ECJ. Essentially, the court wanted to know whether and under which circumstances a SEP holder who has made a FRAND commitment violates art.102 TFEU by bringing an action for injunction against a standard user who is, in principle, willing to take a licence. \*367

### 2. Previous case law

#### (a) Orange Book

In the conflicting lines of case law that caused the Düsseldorf Court to address the ECJ, one pole is constituted by the German Federal Court of Justice's ruling in *Orange-Book-Standard*<sup>18</sup> and the ensuing line of cases. Regarding a de facto-standard (not a de jure-standard, as in *Huawei/ZTE*), it was held in *Orange Book* that the SEP holder's seeking of an injunction against a standard user constitutes an abuse only in certain circumstances. In particular, the defendant was required to have made the applicant an "unconditional" offer to conclude a licensing agreement, it being understood that the defendant must consider itself bound by that offer and that the applicant is obliged to accept it where its refusal would unfairly impede the defendant or infringe the principle of non-discrimination. Furthermore, where the defendant uses the teachings of the patent before the applicant accepts such an offer, it must comply with the obligations under the future licensing agreement, namely to account for acts of use and to pay the sums resulting therefrom.

The *Orange Book* decision has been heavily—and justly—criticised, mainly for being too hard on the standard user.<sup>19</sup> Not only does the standard user bear the burden of specifying and offering licensing conditions. These conditions must also—up front, without leaving the standard user some room for negotiation—meet the SEP owner's interests to an extent that the latter cannot refuse them without committing an abuse.<sup>20</sup> Moreover, the standard user must immediately start to fulfil these conditions, in particular to render account and to pay or deposit royalties, without even knowing what the prospective licensing agreement will exactly look like. It is less clear whether the Federal Court, when requiring an "unconditional" offer, intended an exclusion of the standard user's right to challenge validity or infringement of the alleged SEP.<sup>21</sup> The lower courts at least answered in the affirmative,<sup>22</sup> which not only adds another, and very significant, layer to the standard user's burden. If the SEP owner can impose licensing conditions that prohibit challenging validity or infringement, the "purifying" benefit of such challenges to the patent system is also at risk. Assuming that all standard users have to take such a licence or abstain from using the standard, who will remain to attack weak SEPs? Other SEP holders are not very likely to be the assailants since they are either using the standard themselves and, hence, bound by a no challenge-clause, or at least they would have to fear fierce counter-attack for jeopardising the "no challenge-peace" so advantageous to all SEP holders.

## (b) The Commission's position

While the Orange Book approach favours, as seen, the SEP holder, the EU Commission's position in its investigations against Motorola and Samsung rather rests at the other end of the spectrum. In two press releases concerning these cases<sup>23</sup> the Commission considered an action for injunction as a violation of art.102 TFEU where the SEP holder had made a FRAND commitment and the standard user was willing to negotiate a licence. No qualifications were made with regard to the degree of "willingness" that the standard user must show. Complementarily to the criticism levelled against Orange Book, scholars<sup>24</sup>—and arguably also the Düsseldorf Regional Court<sup>25</sup>—have found fault with the Commission's approach because they considered it to favour hold-out. In fact, unspecific "willingness" is a very low threshold that may allow the standard user to avoid paying royalties by prolonging or frustrating licensing negotiations.

## 3. The ECJ's ruling

The ECJ commences by stating that its fundamental aim is to strike a balance between maintaining free competition and the requirement to safeguard intellectual-property rights and their effective judicial protection, guaranteed by art.17(2) and art.47 of the Charter, respectively.<sup>26</sup>

The first requirement of art.102 TFEU—dominance—is not assessed by the court because it had not been contested in the main proceedings.<sup>27</sup> With regard to the abuse-requirement the ECJ starts off by citing its well-known Hoffmann-La Roche formula: abuse is the

"conduct of a dominant undertaking that, on a market where the degree of competition is already weakened precisely because of the presence of the undertaking concerned, through recourse to methods different from those governing normal competition in products or services on the basis of the transactions of commercial operators, has the effect of hindering the maintenance of the degree of competition still existing in the market or the growth of that competition".

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Reference is then made to another element of settled case law, namely that the exercise of an exclusive intellectual property right, even if it is the act of an undertaking holding a dominant position, cannot in itself constitute an abuse of a dominant position.<sup>29</sup> In "exceptional circumstances", however, this assessment may change and the exercise of the exclusive right may violate art.102 TFEU.<sup>30</sup>

Comparing the case at hand to the existing case law on the (ab)use of IP rights the ECJ identifies the standardisation context and the FRAND commitment as the core particularities in Huawei/ZTE<sup>31</sup>: the standard-essential nature of the patent renders its use indispensable to all competitors that envisage manufacturing products that comply with the standard. Hence, by bringing an action for prohibitory injunction the SEP holder can prevent products manufactured by competitors from appearing or remaining on the market and, thereby, reserve to itself the manufacture of the products in question. From the FRAND commitment the ECJ derives a legitimate expectation on the part of standard users that a FRAND licence will in fact be granted. In consequence, a refusal to grant such a licence may, in principle, constitute a violation of art.102 TFEU and this violation may be raised, by the standard user, as a defence to actions for a prohibitory injunction.

This rule of law being established, the court underlines that, in the case at hand, the SEP holder Huawei is, in principle, ready to grant a FRAND licence. The parties do not agree, however, on what constitutes FRAND in the circumstances

of the case.<sup>32</sup> In such situations the ECJ requires both parties to show a conduct that ensures a fair balance between their interests.

In favour of the SEP holder due account must be taken of his rights to enforce intellectual-property rights, covered by, *inter alia*, Directive 2004/48 and the underlying art.17(2) of the Charter. While these acts aim at a high level of protection for intellectual property rights, the SEP holder's right to effective judicial protection is guaranteed by art.47 of the Charter<sup>33</sup>:

"This need for a high level of protection for intellectual-property rights means that, in principle, the proprietor may not be deprived of the right to have recourse to legal proceedings to ensure effective enforcement of his exclusive rights, and that, in principle, the user of those rights, if he is not the proprietor, is required to obtain a licence prior to any use".<sup>34</sup>

On the other hand, the FRAND commitment weighs in favour of the standard users and obliges the SEP holder to comply with specific requirements when bringing actions for a prohibitory injunction or for the recall of products against alleged infringers.<sup>35</sup> More specifically, the SEP holder may not bring such actions without prior notice to or consultation with the alleged infringer, even if the SEP has already been used by the alleged infringer. The notice must alert the alleged infringer of the infringement complained about by designating the SEP and specifying the way in which it has been infringed. This appears necessary to the Court because, in view of the typically large number of SEPs composing a standard, it is not certain that the standard user is aware of its infringement.

Secondly, after the alleged infringer has expressed its willingness to take a licence, it is for the SEP holder to make a specific, written offer for a licence on FRAND terms, in accordance with the undertaking given to the standardisation body, specifying, in particular, the amount of the royalty and the way in which that royalty is to be calculated. In the absence of a public standard licensing agreement, and where licensing agreements already concluded with other competitors are not made public, the proprietor of the SEP is—according to the ECJ—better placed to check whether its offer complies with the condition of non-discrimination than is the alleged infringer.

The standard user, in its turn, must diligently respond to the SEP holder's offer, in accordance with recognised commercial practices in the field and in good faith.<sup>36</sup> This level of conduct must be established on the basis of objective factors and implies, in particular, that there are no delaying tactics. Should the alleged infringer not accept the licensing offer, it may rely on the abusive nature of an action brought by the SEP holder only if it has submitted, promptly and in writing, a specific counter-offer that corresponds to FRAND terms. Furthermore, where the alleged infringer is using the SEP before a licensing agreement has been concluded, he must, from the point at which its counter-offer is rejected, provide appropriate security, for example by providing a bank guarantee or by placing the amounts necessary on deposit. The calculation of that security must include, *inter alia*, the number of the past acts of use of the SEP, and the alleged infringer must be able to render an account in respect of those acts of use.

Where no agreement is reached on the details of the FRAND terms following the counter-offer by the alleged infringer, the parties may, by common agreement, request that the amount of the royalty be determined by an independent third party, by decision without delay.<sup>37</sup>

With regard to validity/infringement-challenging the ECJ points to the fact that ETSI does not check whether patents are valid or essential to the standard. Referring \*369 further to the standard user's right to effective judicial protection guaranteed by art.47 of the Charter, the Court states—somewhat hazy—that a standard user "cannot be criticized" for challenging the SEP in parallel to the negotiations or for reserving the right to do so in the future.<sup>38</sup>



Finally, the ECJ makes a very important distinction between actions for injunction or recall of products and actions for rendering of accounts and/or damages<sup>39</sup>:

"Article 102 TFEU must be interpreted as not prohibiting, in circumstances such as those in the main proceedings, an undertaking in a dominant position and holding an SEP, which has given an undertaking to the standardisation body to grant licences for that SEP on FRAND terms, from bringing an action for infringement against the alleged infringer of its SEP and seeking the rendering of accounts in relation to past acts of use of that SEP or an award of damages in respect of those acts of use".

### III. Follow-on case law

The few court decisions handed down since Huawei are—maybe somewhat surprisingly—not particularly favourable to standard implementers. On the contrary, implementers have repeatedly,<sup>40</sup> though not always,<sup>41</sup> been held to violate their conduct requirements under the Huawei standard.

Among the rulings is a particularly long and interesting one from the Regional Court in Mannheim.<sup>42</sup> The court granted injunction for violation of a patent that had been declared essential to an ETSI standard by the International Patent Evaluation Consortium (IPEC) and is now held by a patent assertion entity. Although the patent had not been flagged to ETSI during the standard-setting process a patent ambush had, according to the court, not occurred because the defendants (a number of companies vertically related in the production and marketing of standard-based devices) could not prove that the company proposing the technology had knowledge of the patent application at the time the proposal was made. Nor was the previous patent owner held to have breached a duty to disclose—be it personally or by using the proposing standardisation participant as a bona fide agent—since he became an ETSI member only after the standard was set. The present patentee and plaintiff was never a member of ETSI. Leaving open the questions whether the SEP conferred market dominance to the plaintiff<sup>43</sup> and whether the present patentee/plaintiff was bound by the previous patentee's FRAND commitment, the court rejected the claim to a compulsory licence based on art.102 TFEU, s.19 of the German Act Against Restraints of Competition and the Huawei principles because it considered the defendants unwilling licensees. The plaintiff had informed one of the defendants about the purported infringement only after filing the lawsuit, though before the statement of claims was served, which the court considered as potentially belated and therefore in violation of the Huawei principles. However, within one year after the bringing of the lawsuit the defendant had never declared their willingness to take a licence at all. A second defendant was informed when the lawsuit (to which he was not initially a party) was already underway but only declared a—rather vague—willingness to license more than three months after receiving the information, a period which the court considered to be excessive. In addition, this second defendant never submitted a specific licensing offer as required by the Huawei principles. In particular, communications made by the defendants only contained the proposal to have royalties determined by a third party or royalty figures intended to serve as a basis for further discussions but no unambiguous, binding offer to pay a particular royalty. Given this unsatisfactory conduct of the defendants, which further included failure to provide sufficient financial security for royalties potentially due, the court considered it irrelevant whether the royalty claimed by the plaintiff was above FRAND level or whether FRAND was violated by the fact that the defendants were requested to take a worldwide licence although the plaintiff may not have been the owner of the entire (worldwide) patent family covering the invention. Interestingly, the court also mentioned that enforcing an SEP while not abiding by the Huawei principles might violate art.101 TFEU as well, but it denied such violation on the same grounds as with regard to art.102 TFEU. In a preliminary ruling concerning the same lawsuit, the Karlsruhe Court of Appeal had deemed it a potential violation of art.102 TFEU/s.19 Act Against Restraints of Competition if producers of standard-implementing devices are willing to take a licence while their retail partner is not and the SEP holder, who usually enters into licensing agreements with the producers instead of the retailers, goes after the retail partner in order to put pressure on the producers.<sup>44</sup>

In another important post-Huawei ruling the Regional Court of Düsseldorf also expressed doubts whether an SEP holder complied with the Huawei requirements by informing the implementer of the alleged infringement only at the time of and/or by way of the bringing of a \*370 lawsuit.<sup>45</sup> However, since the lawsuit had been commenced before the Huawei ruling the court considered the SEP owner to be in line with the case law relevant at that time. As to the implementer's duty to react to a licensing offer made by the SEP owner the court held that a reply is due regardless of whether the SEP holder's offer is FRAND or not.<sup>46</sup> As soon as the implementer's *first*<sup>47</sup> counter-offer has been rejected, and regardless of whether the SEP holder's initial offer was FRAND or not, the implementer is—according to the Düsseldorf Regional Court—obliged to render account and to provide appropriate security. Since the implementer at issue did not fulfill this requirement, the court granted injunction and damages. The Düsseldorf Upper Regional Court, however, has stayed the provisional enforceability of the Regional Court's ruling until decision upon the pending appeal.<sup>48</sup> In essence, the Upper Regional Court held that the implementer is obliged to react to the SEP holder's offer only if this initial offer is FRAND. Since the Regional Court had left this issue open—assuming a duty to react in any case—the appellate court considered it unclear whether the implementer had violated its duties under the Huawei rules and, hence, whether the SEP holder was entitled to damages and an injunction.

#### IV. Selected issues post-Huawei

##### 1. *A bred-in-the-bone antitrust ruling?*

A first issue relates to the prominence that the decision attributes to legal concepts not genuinely stemming from competition law. While in decisions like Magill, IMS Health or Microsoft, art.102 TFEU and its interaction with the respective rules on IP protection formed the core of the ECJ's argumentation, the Articles of the Charter<sup>49</sup> and general civil law notions of fairness (good faith, recognised commercial practices) do now provide an important part of the basis for conduct requirements imposed on the parties. In fact, no theory of competitive harm is properly established and competition law paradigms like exclusion or exploitation are not even extensively discussed. In a way, the Charter-based balancing which the Court undertakes seems to form a new Archimedean point for legal reasoning.

This new streak in the EU law-framework for the protection and interaction of intellectual property and competition has at least four potential implications: First, and unfortunately, it blurs somewhat the view on the interaction of IP protection and competition law. When the Court talks of "striking a balance between maintaining free competition [...] and the requirement to safeguard that proprietor's intellectual-property rights [...] guaranteed by Article 17(2) [...] of the Charter" this sounds like competition and IP protection were conflictive principles in need of cautious reconciliation—rather the opposite is true: IP rights need competition to yield returns and they are intended to fuel, by their very blocking of imitation, competition by substitution as well as competition based on follow-on innovations.<sup>50</sup> Furthermore, the cited passage seems to stress that the protection granted by IP rights is fixed in scope, preordained by rules as fundamental as the Charter and the very concept of "property". From a policy perspective this narrative is dangerous. True, once an individual IP right has been granted it cannot be materially curtailed or withdrawn without having regard to notions of property protection.<sup>51</sup> As an abstract legal concept, though, intellectual property rights can be, must be, and are shaped to a large extent by the purpose they ought to serve.<sup>52</sup> The legislator has (mainly)<sup>53</sup> established them as a means to foster dynamic efficiency in the market and he is, in tailoring them to this purpose, little confined by a natural law-concept of (intellectual) "property".

Secondly and on a more practical note, the Charter—binding for all Member States—provides additional grounds for a primacy of EU law over national rules on IP protection. In the future, exclusive rights granted by Member States to an IP holder may be curbed not mainly because their exercise violates EU competition law but increasingly because they are at odds with the Charter. For the charter to be applied, a particular case must of course be subject to EU law. Article 102 TFEU is, however, not the only candidate for bringing about this applicability. The EU Enforcement Directive, for



instance, which the Huawei decision cites but does not really apply,<sup>54</sup> calls for "fair, equitable" and "proportionate" remedies<sup>55</sup> and this terms might be interpreted in the light of the Charter.

This assumption leads to a third suggestion, concerning the relationship between the rules of conduct outlined in Huawei and the market dominance requirement of art.102 TFEU. In its ruling the ECJ draws a picture of fair interaction between particular participants in a \*371 standard-based market. Such fairness is desirable regardless of the existence of market power and even regardless of the degree of hold-up exercised by the SEP holder. Furthermore, as far as the standard user (and alleged patent infringer) is concerned, the rules of conduct do typically not address a dominant undertaking. Of course, art.102 TFEU provides a legal basis for establishing conduct requirements and sanctioning their violation only if market dominance is present. But the articles of the Charter and the concept of fairness do not depend on dominance; hence requirements based on them may apply to all market participants.<sup>56</sup> In this perspective, art.102 TFEU forms more of an additional, dominance-dependent sanction for the violation of a broadly applicable standard of fairness. In its ruling the ECJ was not forced to detail on SEP-based market dominance—nonetheless it fits well into the aforescribed concept that he chose not to do so.<sup>57</sup> In sum, Huawei/ZTE is rooted much less in genuine competition law than some might have expected—or hoped.

The fourth observation is a direct consequence of the third: to the extent competition law looms less large there is more room for other legal concepts to order the field of standardisation. The terms "good faith" and "recognized commercial practices" do, in particular, sound a contractual note. In German law, the contractual road has been blocked mainly by unfortunate court rulings which refused to interpret the FRAND commitment as a third-party beneficial contract.<sup>58</sup> In the US, on the other hand, contract rules are applied<sup>59</sup> and they may—in the presence of a FRAND commitment—prove helpful to EU cases as well. Before a contractual solution can take full effect, however, a number of issues have to be solved, such as the determination of the law applicable to a "FRAND-based third party beneficial contract" established in the framework of a particular SSO.<sup>60</sup>

## 2. FRAND addiction and the "EU eBay rule"

The ECJ had to decide on a case in which a FRAND commitment had not only been made but formed the centre of the dispute. Unsurprising as it therefore was that the Huawei ruling based itself very much on the commitment, it may worsen a profound weakness in the present discourse on SEP cases: as said before, most of the discussion focuses on the FRAND commitment and most approaches for coping with these cases depend on it. But what to do if the FRAND holder has not made such a commitment,<sup>61</sup> for instance because he did not partake in the standard-setting but acquired the portfolio afterwards?<sup>62</sup> FRAND-based (contractual) approaches are then probably unable to provide conduct requirements for either the SEP holder or the standard implementer. Competition law, however, is still in a position to check hold-up and hold-out,<sup>63</sup> while patent law must—and should—still be enabled to do so.<sup>64</sup>

Contractual approaches can easily fail then but competition or—preferably—patent law may still be in a position to check both hold-up and hold-out.

In comparison, the US approach seems more resilient and more flexible, which however also means that it provides less legal certainty. The *eBay* criteria for barring injunctions do not absolutely require a FRAND commitment, although its existence does of course loom large in the assessment of these criteria.<sup>65</sup> Even with a commitment, the *eBay*-based US approach and the Huawei-test may turn out differently when applied to the same facts. In *Apple v Motorola*, for instance, Apple seems not to have made a specific counter-offer.<sup>66</sup> This would call into question its "willingness" in the sense of Huawei while it did not keep Judge Posner from refusing an injunction to Motorola.

### *3. A stack of open questions*

The Huawei/ZTE ruling goes beyond general remarks on a "middle path"<sup>67</sup> between the interests of SEP holders and standard users. It starts to carve that path with a roadmap for how they should resolve their conflicts. Unavoidably, though, many important questions remain yet to be answered. Among them are not only the issues of portfolio licensing and no-challenge clauses, to be discussed in separate sections of this study, but also numerous other aspects. A selection of issues are touched upon in the following: \*372

Relationship between "FRAND", "willingness", "good faith" and "recognized commercial practices":

The exact relationship between the multiple legal concepts with which Huawei operates still needs to be worked out.<sup>68</sup> Does FRAND go more to the content of the licensing offer while the standards of good faith and recognised commercial practice rather address the process of licensing negotiations? Or does the FRAND concept encompass these fundamental concepts of fair dealing?

Working out the detailed licensing conditions to be offered or counter-offered:

The SEP holder may have a better knowledge of the number and content of his SEPs. But does he know enough about the business model (products, turnover, calculation, etc.) of each standard user to discern what FRAND conditions might be with regard to that particular licensee?<sup>69</sup> And does a standard user, especially if he is a "little guy", have a picture of the market that is clear enough for him to specify a FRAND counter-offer apt to shield him from injunction? If the implementer lacks this capacity, how shall he determine the appropriate size of the security he is required to provide in case of use without licence?<sup>70</sup> Courts, enjoying the benefit of hindsight with regard to FRAND licensing conditions they might determine themselves, should not be overly strict if the reasonable and serious attempts of the parties prove, in their result, not to exactly meet the FRAND margin. On the other hand they should severely sanction parties who do *not* make their best effort in drafting FRAND-compliant offers, for instance by remaining vague on the details of the envisaged licence or by formulating a mere basis for further negotiations instead of a binding offer.

FRAND as a range:

We believe that "FRAND" constitutes—in most cases—a certain range of conditions, rather than one single, undisputable set of them.<sup>71</sup> The ECJ is, apparently, of the same opinion, since it envisages FRAND offers from both the SEP holder *and* the standard implementer. If this is so, who gets to pick the conditions if the (counter-)offers of *both* parties are located within that range? An argument that the SEP holder enjoys priority because the implementer is, after all, infringing on his intellectual property<sup>72</sup> can hardly be convincing since the FRAND commitment has invited, as it were, the implementer to use the patented and standardised technology. A negotiated compromise is, of course, the best solution<sup>73</sup> but, ultimately, the law cannot force the parties to reach consensus. Independent determination of FRAND licensing conditions must step in where consensus fails to materialise.<sup>74</sup> A transparent practice of royalty determination by courts and arbitration tribunals can, in any case, help to induce consensus because parties who foresee what they will get in court have an incentive to reach the same result out of court, thereby saving fruitless litigation costs. Furthermore it should be permitted that—as is typical for complex negotiations—at least the initial offers of the parties may be located rather at the outer ends of the FRAND range in order to create room for manoeuvre in the negotiating process.

FRAND violations in the process of negotiation:

Opposite to the scenario just described, it may happen that neither party submits conditions that qualify as FRAND. What are the consequences regarding the seeking of an injunction and the (further) implementation of the standard? The Mannheim court has practically released the patentee from the duty to submit an offer that is truly FRAND in case of an implementer's blatant unwillingness to license. This is a slippery slope, however, since it may incentivise patentees to submit *pro forma* offers, hoping to establish unwillingness of an implementer and to then force through high royalty rates by way of filing for injunction. This concern \*373 is especially warranted where the time-frame for an implementer to show willingness is designed narrowly—as is the case for the three-month period envisaged by the Mannheim court.

In any case, the court erred, we think, in permitting the patentee to file for injunction before even informing the implementer of a purported infringement.<sup>75</sup> Facing an unwilling implementer or not, the patentee should not be permitted to jump the gun by suing first and—maybe—negotiating later. This is because (to state only one reason) licensing negotiations which are overshadowed by ongoing litigation are affected by the imminent threat of injunction as well as by litigation tactics and therefore unlikely to yield an undistorted result.

The Düsseldorf courts, in particular, are struggling at present with the effects of a non-FRAND offer submitted by either party on the Huawei-obligations of the other party: Must the implementer make a counter-offer—or react at all—if the initial offer by the SEP holder is not FRAND?<sup>76</sup> And is the SEP holder required to submit a FRAND offer although the implementer declares he will accept no other than his own licensing conditions which are not FRAND?<sup>77</sup> What seems most important in such settings is to not give the parties an option for blocking or escaping from negotiations by pointing fingers at the bad, "non-FRAND guy" on the other side of the table. Furthermore, since nobody knows the exact FRAND level of licensing conditions in a particular case, who is to judge whether a licensing offer is so blatantly non-FRAND that it cannot trigger a duty to react? Each party should therefore have a duty to react to the other party's offer in a way that furthers negotiations. Also, each party should be obliged, regardless of the conduct of the other party, to timely submit *one* binding licensing offer and bear the consequences (cf. below) if this offer is held by a court or arbitration tribunal not to be FRAND.

#### Consequences of non-FRAND conduct:

The Huawei decision remains rather vague on what the exact consequences are when specific actions violate the standards of good faith and recognised commercial conduct. Clearly, Huawei is not—and is not taken by Member States' courts to be—an injunction blocker but merely an injunction brake—injunctions remain possible if the standard implementer does not behave appropriately. In addition, the implementer will have to pay damages for unlicensed use of the SEP. On the other hand, patentees whose conduct violates FRAND should face severe retribution as well. Compulsory licensing, defeat in court and a duty to bear the costs of unjustified injunction litigation are obvious sanctions, but implementers' claims to damages suffered as a result of the patentee's non-FRAND conduct may loom large as well.

#### The notion of "delay" regarding the implementer's reaction:

The ECJ requires a "prompt" reaction by the standard implementer. In German this translates into "in kurzer Frist", and in French into "bref délai". But how immediate must the implementer's reaction be, given that it may be challenging to assess validity, essentiality, infringement and FRAND conditions regarding the patents offered for licence? And does every belated answer qualify as "delaying tactics" in the sense of Huawei? The Mannheim court's timeframe of three months is certainly at the rigorous end of the spectrum. In any case, a fixed period of time, be it three, six or eight months, should not be more than a presumption which can be rebutted by showing particular complexity of the licensing arrangement or other exceptional circumstances.

## Further conduct requirements of a "willing licensee":

A standard implementer is, of course, not a "willing licensee" if he refuses to take a licence entirely or at FRAND conditions. Below this threshold, however, it is far from clear what conduct the implementer has to show in order to qualify as "willing". Can, \*374 for instance, the SEP holder request the implementer to sign a non-disclosure agreement before entering into licensing negotiations? Can—as the Mannheim court seems to indicate—the patentee's FRAND offer envisage the taking of a worldwide licence although Huawei is binding law only for the European Union? And is an implementer required to provide appropriate security in spite of the SEP holder's offer (or, for that matter, both offers) not being FRAND?<sup>78</sup> We think this is so but court guidance is still lacking. These and other details will keep courts and lawyers busy for a while. And they constitute an area where proactive guidance by antitrust agencies and, in particular, SSOs could be most beneficial.

## Independent royalty determination:

When generously allowing for royalty determination "by an independent third party, by decision without delay", the ECJ generates more questions than answers—who is to be the "independent" party? Where does the binding force of its "decision" stem from? Is this decision really limited to royalties or can it determine all relevant licensing conditions—in our view the only reasonable reading?<sup>79</sup> As to the "delay", when does the period of time necessary for rendering a well-founded "determination" end and the "delay" begin? How can private parties (the SEP holder and the standard implementer) force an adjudicating body to act "without delay"? And if they fail to do so, does a delay void the belated FRAND determination? Or does the ECJ, after all, really mean—and fail to clearly express—that the *parties' request* needs to be made without delay? Furthermore, the permission for the parties to seek royalty determination does not mean they are able to get such determination. To us it is not evident that, at present, fast and reliable FRAND determination for large SEP portfolios (not for single or few patents!) is readily available. If this were true, would it alter the availability of injunctions to the SEP holder<sup>80</sup> by making hold-out easier to prolong?

## Claims other than injunctions:

The Huawei rules of good-faith conduct are expressly limited to injunctions, while the SEP holder may, according to the ECJ, always seek damages. Future case law will have to show whether this approach proves viable or whether (some of) the injunction-related conduct requirement will have to be transferred to the damages arena. After all, the seeking of damages for a long-lasting and extensive (purported) infringement of an (alleged) SEP may serve to put considerable pressure on a prospective licensee as well.

4. *The importance of procedural tools and the role of SSOs*

Some of the issues just described may be resolved by developing material rules of law that are both precise and flexible enough to achieve, in most cases, appropriate results. To a certain extent, though, SEP cases are so complex, heterogeneous and fact-sensitive that legal "formulae" of general applicability are hard to define or must remain vague. Rules of law alone are, for instance, not well suited to determine the quality of a large portfolio of—alleged—SEPs. Instead, detailed technical analysis is required whose outcome depends on the facts of the case. "FRAND" licensing conditions—to name another and probably the most paramount example—are not the same for all SEPs, all standard-based markets or all standard users. And even with regard to a single licensing relationship many commentators doubt—with good reasons—whether there is any such thing as a precise FRAND-formula.<sup>81</sup> Hence FRAND, although a core concept of SSO-standardisation and the ECJ's "middle path", provides no more than shaky ground.

However, where material rules fail, procedural tools may step in. Competent and impartial decision-making bodies, applying appropriate procedural rules, may be able to solve even numerous and complex SEP controversies. Scholars and practitioners should therefore have a focus on conceiving such bodies and procedures. State courts are an obvious, and very valuable, player in the field. But their use is costly to the public. Their judges are oftentimes no experts with regard to the standardised technologies or the standard-based markets. Fact finding in court can be cumbersome and jurisdictional methods, such as extensive discovery and jury trials, onerous to the parties. Furthermore, state courts may—for instance with regard to the quality and value of SEP portfolios—be **\*375** forestalled or hesitant to issue the kind of rough-and-ready assessment that can be very helpful to industry participants but equally easy to appeal.

The limitations of state courts confronted with an onrush of complex SEP cases draw attention to the managers and gatekeepers of standardisation, the standard-setting organisations. To what extent might they be arbiters in SEP conflicts, for instance by establishing some form of SSO arbitration panel? Some characteristics of SSOs advocate caution. The organisations are, for instance, not necessarily in a strong and unbiased position vis-à-vis (all) their members. Big companies are important drivers of the standard-setting process and their post-implementation market activity is indispensable for the standard's success. This is not to mean that SSOs should do away with big business-participation—standardisation would not work as well without it. But there is a risk that such powerful players shape SSO rules according to their interests.<sup>82</sup> Regarding SSO-linked arbitration panels, one might argue that the market player's contradicting interests will somehow level out. In particular, since many companies are SEP holders and standard users at the same time it is hard for them to foresee whether they will be the infringer or the patent-plaintiff in future litigation. This may lead them to perceive their best interest in unbiased procedural rules and decision-making bodies. When, however, one faction of SSO participants with a one-sided market position (users, NPEs) gains the upper hand in the SSO or when the big players ally against smaller standard users, panel composition or panel rules may get twisted.

Taking a second example, the legal framework in which SSOs would play a new procedural role is yet to be defined. SSOs are private entities, subject mainly to national laws whose applicability is to be determined by applying conflict of laws-rules.<sup>83</sup> These national laws may not allow for court-like powers of private "associations" unless the parties have subjected themselves to them by way of membership, arbitration agreement or the like. At the same time, the standards SSOs set are oftentimes of transnational, even global impact. Hence, the decisions of SSO-tribunals can affect companies and consumers who are neither SSO members nor consented to panel-powers of jurisdiction. At the very least, this suggests a specific legal framework to which SSO-tribunals are bound and under which the legal essence of their decisions (not necessarily business data) is accessible to the public, as well as subject to some form of impartial review. This framework will also have to tackle many of the legal, economic and practical difficulties faced by state courts, such as the cost and duration of litigation or the availability of competent decision makers. Existing SSO-based arbitration<sup>84</sup> probably fails to meet this challenge<sup>85</sup> since it does not seem to burgeon.<sup>86</sup>

In spite of these and further concerns, it seems a promising idea to involve SSOs in handling the effects of standardisation. As to FRAND determination, for instance, it could be useful to establish a division of labour between SSO-based decision-making bodies and state courts—while the latter define the legal metes and bounds, such as the appropriate basis for FRAND determination, SSOs could apply these rules to the facts of particular cases. Intensive discussion and careful conceptual work is necessary, though, to mitigate the downsides of SSO empowerment. The organisations themselves may be hesitant to assume a more active role. If need be and when the legal community is confident that an appropriate legal framework has been developed, states and/or supranational structures (such as the EU) should nonetheless be willing to force them into it.

#### IV. Conclusion



In the uttermost distress the middle path does bring death<sup>87</sup>—contrary to Friedrich von Logau's proverb standard-setting and the EU law on SEPs are not in a state of emergency, nor is the Huawei ruling likely to have fatal consequences. However, the ECJ's "middle path" needs to get broader and more discernible in order not to become a slippery slope. Important measures to that effect are a specification of the FRAND negotiation-process and of the sanctions for abusing it, as well as the empowerment of rules and bodies which might help to find procedural solutions to the most intractable SEP issues. The present contribution hopes to initiate further discourse on these issues. Because it is only if these and other roadblocks are removed that standardisation will be able to make its full contribution to innovation and competition.

## Peter Picht

### Footnotes

- 1 Prof. Dr. Peter Picht, LL.M. (Yale), Professor of Law at the University of Zurich, Senior Research Fellow with the Max Planck Institute for Innovation and Competition, Munich.
- 1 Cf. in detail *Peter Picht, Strategisches Verhalten bei der Nutzung von Patenten in Standardisierungsverfahren aus der Sicht des europäischen Kartellrechts (Berlin/Bern, 2013)*, p.179ff.
- 2 FRAND stands for "fair, reasonable and non-discriminatory". In the US context, the "fair" is often omitted without the resulting "RAND" concept being materially different from "FRAND"; American Bar Association, Standards Development Patent Policy Manual, ABA Publishing, 2008.
- 3 Royalties are usually an important, but not necessarily the only doubtful component of such licensing conditions. The SEP holder may, for instance, also request excessive cross-licensing.
- 4 Cf. in greater detail on this issue J. Farrell e.a., "Standard Setting, Patents, and Hold-Up" (2007) 74 Antitrust L.J. 603, 614 et seq., 618 et seq.; J. Scott Miller, "Standard Setting, Patents, and Access Lock-In: RAND Licensing and the Theory of the Firm" (2007) 40 Ind. L. Rev. 351, 366 f.
- 5 See D. Evans and R. Schmalensee, "A Guide to the Antitrust Economics of Networks" (1996) 10(2) Antitrust 36, et seq.
- 6 M. Lemley and C. Shapiro, "Patent Holdup and Royalty Stacking" (2007) 85 Texas L. Rev. 1991, 2009 et seq.
- 7 For a sample of SSO policies containing FRAND obligations, see *Picht, Strategisches Verhalten bei der Nutzung von Patenten in Standardisierungsverfahren aus der Sicht des europäischen Kartellrechts (2013)*, p.189 et seq.
- 8 Cf. the Rambus case where the SEP holder left the SSO in order not to be obliged to disclose standard-essential patents; In the Matter of Rambus Inc., Docket No. 9302, <http://www.ftc.gov/os/adjpro/d9302/index.shtm> [Accessed 5 July 2016] (all online resources last checked 6 November 2015).
- 9 Cf., for instance, the acquisition and subsequent enforcement of a SEP portfolio by IPCOM; [http://europa.eu/rapid/press-release\\_MEMO-09-549\\_en.htm](http://europa.eu/rapid/press-release_MEMO-09-549_en.htm) [Accessed 5 July 2016].
- 10 Cf., from a German law perspective, § 139 PatG.
- 11 For statistical data, see the study European Commission, Patents and Standards, A modern framework for IPR-based standardisation, 125 et seq., [http://ec.europa.eu/growth/industry/intellectual-property/patents/standards/index\\_en.htm](http://ec.europa.eu/growth/industry/intellectual-property/patents/standards/index_en.htm) [Accessed 5 July 2016].
- 12 Other settings have come up in the case law, for instance attempts to manipulate the standard-setting process; cf. *Allied Tube & Conduit Corp v Indian Head Inc* 486 U.S. 492 (1988).
- 13 For an additional example of an "ambush case", see *Qualcomm v Broadcom* 548 F. 3d 1004 (Fed. Cir. 2008).
- 14 On IPCOM, see <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/09/549&format=HTML&aged=1&language=DE&guiLanguage=en>; [http://www.ipcom-munich.com/IPCom\\_Frand\\_Declaration.pdf](http://www.ipcom-munich.com/IPCom_Frand_Declaration.pdf); [http://www.zdnet.de/news/wirtschaft\\_unternehmen\\_business\\_ip\\_com\\_verklagt\\_nokia\\_wegen\\_patentverstoessen\\_story-39001020-39161694-1.htm](http://www.zdnet.de/news/wirtschaft_unternehmen_business_ip_com_verklagt_nokia_wegen_patentverstoessen_story-39001020-39161694-1.htm); [http://www.ipcom-munich.com/100119\\_PressRelease\\_Bruessel\\_G.pdf](http://www.ipcom-munich.com/100119_PressRelease_Bruessel_G.pdf) [Accessed 5 July 2016]. A US-example is the N-Data case; Federal Trade Commission, Complaint of 23 January 2008 — In the Matter of Negotiated Data Solutions LLC Docket No.051 0094.
- 15 Portfolio transfer settings attract revived attention at the moment as holders of large patent portfolios are accused of "privateering", i.e. of having their patents enforced by "trolling" transferees, cf. <http://www.foospatents.com/2015/05/nokia-and-ericsson-seek-to-justify.html>



utm\_source=feedburner&utm\_medium=email&utm\_campaign=Feed%3A+fosspatents%2FzboT+%28FOSS+Patents%29 [Accessed 5 July 2016].

Cf. as further examples, *Townshend v Rockwell International Corp* 2000 WL 433505 (N.D. Cal. 2000); as well as the recently launched FRAND litigation between Ericsson and Apple, *Ericsson v Apple* NO.2:15-cv-17 (E.D. Texas 2015).

See, for the following, *Huawei Technologies Co Ltd v ZTE Corp* (C-170/13) EU:C:2015:477; [2015] 5 C.M.L.R. 14 at fn.21 et seq. On the political and general business background *Drexel*, "Zugang zu standardessenziellen Patenten als moderne Regulierungsaufgabe", p.5 et seq, [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2688023](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2688023) [Accessed 5 July 2016].

BGHZ 180, 312.

Ullrich, IIC 2010, 337; Hotte, MMR 2009, 686; De Bronett, WUW 2009, 899; Barthelmes/Gaus, WuW 2010, 626.

Ullrich, IIC 2010, 337, 344 et seq.; Frohlich, GRUR 2008, 205, 213.

On the excessive interpretation of *Orange Book* by the lower German courts *Drexel*, "Zugang zu standardessenziellen Patenten als moderne Regulierungsaufgabe", p.20 et seq., [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2688023](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2688023) [Accessed 5 July 2016].

For example, LG Mannheim, 9 Dezember 2011, Az. 7 O 122/11, MittdtPatA 2012, 120; OLG Karlsruhe, 23 January 2012, Az. 6 U 136/11, GRUR-RR 2012, 124; LG Mannheim, 2 May 2012, Az. 2 O 240/11, BeckRS 2012, 11804.

Press releases No.IP/12/1448 and MEMO/12/1021 of 21 December 2012.

Picht, GRUR Int 2013, 1, 29 et seq.

LG Düsseldorf, GRUR Int. 2013, 547, 551 et seq., where the Court does also state quite clearly that it perceives hold-out risks in the market.

Huawei [2015] 5 C.M.L.R. 14 at fn.42.

Huawei [2015] 5 C.M.L.R. 14 at fn.43.

Huawei [2015] 5 C.M.L.R. 14 at fn.45 w.f.r.

Huawei [2015] 5 C.M.L.R. 14 at fn.46 w.f.r.

Huawei [2015] 5 C.M.L.R. 14 at fn.47 w.f.r.

On the following Huawei [2015] 5 C.M.L.R. 14 at fn.48 et seq.

Huawei [2015] 5 C.M.L.R. 14 at fn.54 et seq.

Huawei [2015] 5 C.M.L.R. 14 at fn.57 w.f.r.

Huawei [2015] 5 C.M.L.R. 14 at fn.58.

On the following, see Huawei [2015] 5 C.M.L.R. 14 at fn.59 et seq.

Huawei [2015] 5 C.M.L.R. 14 at fn.65 et seq.

Huawei [2015] 5 C.M.L.R. 14 at fn.68.

Huawei [2015] 5 C.M.L.R. 14 at fn.69.

Huawei [2015] 5 C.M.L.R. 14 at fn.74 et seq.

Mannheim Regional Court, 27 November 2015, 2 O 106/14; LG Düsseldorf, 3 November 2015, 4a O 144/14.

In favour of the implementer, e.g. OLG Düsseldorf, 13 January 2016, I-15 U 65/15, 15 U 65/15.

Mannheim Regional Court, 27 November 2015, 2 O 106/14. For the sake of brevity, no references to specific marginal numbers are made in the following summary of the ruling.

Very interestingly, the court mentioned—obiter dictum—that the Huawei conduct requirements might apply even absent market dominance based on the principle of good faith as laid down in s.242 German Civil Code (GCC).

Karlsruhe Court of Appeal (OLG Karlsruhe), GRUR-RR 2015, 326.

LG Düsseldorf, 3 November 2015, 4a O 144/14, para.139. For the sake of brevity, no references to specific marginal numbers are made in the following summary of the ruling.

The court only required some form of reaction, not necessarily—in case the SEP holder's offer is not FRAND—a FRAND counter-offer; LG Düsseldorf, 3 November 2015, 4a O 144/14, para.149.

Additional counter-offers do not, according to the court, remove the implementer's duty to render account and to provide appropriate security; LG Düsseldorf, 3 November 2015, 4a O 144/14, para.156.

OLG Düsseldorf, 13 January 2016, I-15 U 65/15, 15 U 65/15.

Introducing the Charter, the Court should have mentioned art.16 (freedom to do business) as well.

In greater detail on this theory of complementarity, see *Josef Drexel*, "Abuse of Dominance in Licensing and Refusal to License: A "More Economic Approach" to Competition by Imitation and to Competition by Substitution" in *Ehlermann and Atanasu (eds), The Interaction between Competition Law and Intellectual Property Law (Oxford/Portland Oregon: Hart Publishing, 2007), pp.647, 647 et seq.*

*Badura, "Privatnützigkeit und Sozialbindung des geistigen Eigentums" in Ohly and Klippel, Geistiges Eigentum und Gemeinfreiheit (Tübingen, 2007), pp.45, 56 et seq.*  
*Ullrich, "Intellectual Property: Exclusive rights for a purpose", Max Planck Institute for Intellectual Property and Competition Law Research Paper No.13-01, p.15 w.f.r.*  
 Other purposes for granting IP protection are, of course, present. At least for "industrial" property rights, though, the goal to incentivise welfare-enhancing innovation and its putting to use in the market place is paramount; cf. Drexel (n. 60 above), 647 et seq.  
 I owe this observation to Josef Drexel.  
 Article 3 Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights [2004] OJ L157/45.  
 I owe this thought to Hanns Ullrich.  
 On the aspects that may be relevant for establishing market power of a SEP holder, see *Picht, Standard-essential patents — Limiting exclusivity for the sake of innovation, EIPIN Series 2016* (forthcoming); *Batista v Mazutti Case Note Huawei, IIC 2016* (forthcoming).  
 LG Mannheim, GRUR-RR 2009, 222; on a Dutch case, see <http://www.foosspatents.com/2011/10/samsung-loses-dutch-case-against-apple.html> [Accessed 5 July 2016].  
 In Judge Robart's *Microsoft v Motorola* case, for instance, Motorola did not even dispute the presence of a third-party beneficial contract and the pertinent court order settles the matter in one short paragraph; *Microsoft v Motorola* case No.C10-1823JLR, court order as of 2/27/12, Dkt. # 188.  
 As SSOs are located in different countries and established under different laws, they are not all governed by the same law; cf. *Picht, Strategisches Verhalten bei der Nutzung von Patenten in Standardisierungsverfahren aus der Sicht des europäischen Kartellrechts (2013), 343 et seq. w.f.r.*  
 Palzer, *EuZW* 2015, 702, 706, expects the Orange Book rules to apply in this case, which would be a sad result.  
 The EU Commission's intervention against IPCom shows that such cases do exist; cf. [http://europa.eu/rapid/press-release\\_MEMO-09-549\\_en.htm](http://europa.eu/rapid/press-release_MEMO-09-549_en.htm) [Accessed 5 July 2016].  
 In detail on this, see *Picht, Strategisches Verhalten bei der Nutzung von Patenten in Standardisierungsverfahren aus der Sicht des europäischen Kartellrechts (2013), p.472 et seq.*  
 Patent law would probably be the most appropriate tool for regulating SEP holder-conduct but the patent laws of European Member States have not yet been sufficiently adapted to this task; *Picht, Strategisches Verhalten bei der Nutzung von Patenten in Standardisierungsverfahren aus der Sicht des europäischen Kartellrechts (Berlin/Bern, 2013), p.367 et seq.* Cf. also *Hilty v Slowinski, GRUR Int.* 2015, 788, arguing for new and specific EU legislation.  
*Apple Inc v Motorola Mobility Inc* 886 F. Supp. 2d 1061, 1085 (W.D. Wsh. 2012), 18 et seq.  
*Apple* 886 F. Supp. 2d 1061, 1085 (W.D. Wsh. 2012), 20 et seq.  
*Opinion of AG Wathelet, Huawei Technologies Co Ltd v ZTE Corp (C-170/13) EU:C:2014:2391; [2015] 5 C.M.L.R. 14 at fn.52.*  
 Cf. also Hösch *GRUR* 2014, 745 et seq.  
*Körber WRP* 2015, 1167, therefore appears too confident in the SEP holder's ability to specify FRAND.  
 On this issue also *Körber WRP* 2015, 1167.  
 Similar T. Kühnen and C. Maimann, *Die kartellrechtliche Zwangslizenz nach der EuGH-Entscheidung "Huawei Technologies/ZTE"*, slides of the presentation on file with the author, p.86.  
 This argument was at the heart of the pre-Huawei SEP rulings in Germany.  
 When settling their worldwide SEP/FRAND disputes Apple and Ericsson, for instance, resolved controversial issues that would have busied court and counsel for years to come; cf. <http://www.ericsson.com/news/1974964> [Accessed 5 July 2016].  
 Similar Kühnen and Maimann, *Die kartellrechtliche Zwangslizenz nach der EuGH-Entscheidung "Huawei Technologies/ZTE"*, slides of the presentation on file with the author, p.91 et seq.  
 The ECJ deemed even deemed it necessary to correct the German version of its decision in order to make in unambiguous that the SEP holder must, prior to bringing a lawsuit, not only inform the implementer of the purported infringement but also submit a (FRAND) licensing offer; <http://kluwerpatentblog.com/2016/01/08/frand-update-cjeu-corrects-the-german-version-of-the-huawei-vs-zte-judgment/> [Accessed 5 July 2016].  
 In the affirmative *LG Düsseldorf*, 3 November 2015, 4a O 144/14, para.139; in the negative *OLG Düsseldorf*, 13 January 2016, I-15 U 65/15, 15 U 65/15.  
 In the negative Kühnen and Maimann, *Die kartellrechtliche Zwangslizenz nach der EuGH-Entscheidung "Huawei Technologies/ZTE"*, slides of the presentation on file with the author, p.71.  
*LG Düsseldorf*, 3 November 2015, 4a O 144/14.

- 79 With the same view Kühnen and Maimann, Die kartellrechtliche Zwangslizenz nach der EuGH-  
Entscheidung "Huawei Technologies/ZTE", slides of the presentation on file with the author, p.94.
- 80 In Apple 886 F. Supp. 2d 1061, 1085 (W.D. Wsh. 2012), for instance, Judge Posner relied heavily on  
monetary compensation as the appropriate alternative to an injunction—but what if an award of such  
compensation for entire portfolios is not a realistic option?
- 81 Fischmann GRUR Int 2010, 185, 191; Valimaki, "A flexible approach to RAND licensing" [2008]  
E.C.L.R. 686. Cf. also above on the nature of FRAND as a range rather than a dot.
- 82 Cf. for instance, the fight over the new IP policies of "IEEE", a quite important SSO in the ICT field;  
<http://www.law360.com/articles/637457/inside-the-ieee-s-important-changes-to-patent-policy> [Accessed  
5 July 2016]; most recently, and showing that struggles between interest groups may indeed jeopardise  
effective standard-setting, MLex, 26 Oct 2015, Ericsson, Qualcomm decline to adopt new IEEE policy for  
standard-essential patents, available at <http://mlexmarketinsight.com/> [Accessed 5 July 2016].
- 83 ETSI, for instance, is governed by French law due to its seat in Sophia-Antipolis, France; *Picht*,  
*Strategisches Verhalten bei der Nutzung von Patenten in Standardisierungsverfahren aus der Sicht des*  
*europäischen Kartellrechts (2013)*, 343 et seq. w.f.r.
- 84 For instance, the SSO "VITA" establishes an arbitration procedure in art.10.5. of its policies, [http://](http://www.vita.com/resources/Documents/Policies/vso-pp-r2d8.pdf)  
[www.vita.com/resources/Documents/Policies/vso-pp-r2d8.pdf](http://www.vita.com/resources/Documents/Policies/vso-pp-r2d8.pdf) [Accessed 5 July 2016].
- 85 More empirical research on this aspect is urgently needed.
- 86 Cf. statement of Dr Michael Fröhlich at "Is arbitration a promising way to settle disputes about  
standard-essential patents?", First Munich IP Dispute Resolution Forum Meeting, 10 November 2015,  
minutes on file with the author.
- 87 *Cum grano salis*-translation of the German saying "in Gefahr und größter Not bringt der Mittelweg  
den Tod", attributed to Friedrich von Logau and used as a movie title by Alexander Kluge; cf. [http://](http://www.uni-klu.ac.at/fai/short.php3?ID=8847)  
[www.uni-klu.ac.at/fai/short.php3?ID=8847](http://www.uni-klu.ac.at/fai/short.php3?ID=8847) [Accessed 5 July 2016].

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